



News Release

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IRS REDUCES PAPERWORK BURDEN ON SMALL BUSINESSES

WASHINGTON – In a significant cost-saving move for small businesses, the Internal Revenue Service today announced it has reduced paperwork for most small businesses currently required to file corporate income tax return forms.

Starting with the 2002 tax year, companies with less than \$250,000 of gross receipts and less than \$250,000 in assets will no longer have to complete Schedules L, M-1 and M-2 of Form 1120; Parts III and IV of Form 1120-A; and Schedules L and M-1 of Form 1120S.

“These changes could save 2.6 million small businesses an estimated 61 million staff hours. This is staff time now spent preparing these forms. These changes will mean a significant financial savings for small businesses,” said Charles O. Rossotti, IRS commissioner. “This is part of an on-going effort by the IRS to ease the burden on America’s taxpayers wherever possible.”

Mark Weinberger, Treasury Assistant Secretary for Tax Policy, said, “This is another step in our continuing efforts to reduce the compliance burden on small businesses and eliminate an unnecessary complexity.”

Members of Congress welcomed the change.

Sen. John Kerry of Massachusetts, chairman of the Senate Small Business and Entrepreneurship Committee, said: “Every year small business owners are forced to spend hours of their own valuable time and precious dollars filing complicated tax forms, wasting time and money better spent creating new jobs. This new system – long overdue – will reduce extraneous paperwork and benefit all Americans by creating a system that works better and costs less. That’s the kind of reform and accountability I believe in creating in Washington, top to bottom, helping America’s small businesses.”

Sen. Christopher “Kit” Bond of Missouri, ranking minority member on the panel, added: “By eliminating these forms, the IRS has significantly reduced the paperwork burden on small corporations and especially small S corporations, leaving them more time and money to do what they do best – run successful small businesses and provide jobs in our communities.”

Rep. Don Manzullo of Illinois, chairman of the House Small Business Committee, said, “Instead of spending countless hours and endless amounts of money figuring their tax returns, our small employers can now focus on their businesses and their employees. I congratulate Commissioner Rossotti for again coming to the aid of

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small business owners by ridding them of unnecessary tax burdens.”

Rep. Nydia M. Velázquez of New York, ranking minority member on the House panel, said, “I commend Commissioner Rossotti for proactively working to reduce the compliance costs attributed to time wasted on paperwork, which can amount to a significant drain of vital resources for small businesses. Tax documentation constitutes the overwhelming majority of paperwork requirements for most small businesses.”

The exemption for small businesses will allow them to use recordkeeping based on their checkbook or cash receipts and disbursements journal instead of additional accounting methods for tax reporting. The companies will still be required to maintain records detailing assets, liabilities, equity accounts and adjustments used to arrive at taxable income.

Schedule L (Part III of Form 1120-A) provides the beginning and end of the year balance sheets based on the corporation’s books. Small businesses typically prepare this form only because it is required for tax purposes. Schedule M-1 (Part IV of Form 1120-A) provides reconciliation of income or loss in accounting records with income or loss on the tax return. Schedule M-2 reflects unappropriated retained earnings. For most small businesses Schedule M-1 and M-2 reflect little more than the beginning balance as affected by current income or loss and the ending balance.

For larger companies, these schedules are necessary tools in the examination of corporate returns. However, for most small businesses, these schedules have a limited application.

John Herzog, vice president for public policy of the Air Conditioning Contractors of America, praised the change. “This is another indication of the new fresh air approach IRS has taken to regulation in order to lessen the burden on small businesses. Our members greatly appreciate it.”

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